

OPENING STATEMENT TO SENATE ESTIMATES

MR SIMON LEWIS, WEDNESDAY 17 OCTOBER 2012

Thank you Chair.

Simon Lewis, acting Secretary of the Department of Defence.

As the Committee would be aware, at the request of the Prime Minister, the former Secretary, Mr Duncan Lewis, has been nominated as Ambassador to Belgium, the European Union and Luxembourg. He will, subject to normal processes being completed, also be Australia's Ambassador to NATO. Mr Lewis is expected to take up his new post later this year. His last day in Defence was the 10th of October. The new Secretary, Mr Dennis Richardson, will take up his duties as Secretary from tomorrow, the 18th of October.

We noted in May that Defence would find significant savings across the portfolio, namely a Defence contribution of \$5.454 billion to the Government across the Forward Estimates, starting with \$971 million in 2012-13. We have allocated those savings across the Defence enterprise.

We expect to achieve these savings, but – as Secretary Lewis stated in May – it remains challenging as new and unforeseen priorities emerge across the rest of the financial year.

I would like to emphasise again that the savings we are pursuing will not impact on our current operations.

As you may be aware, the Minister for Defence and the Minister for Defence Materiel announced yesterday that the Government has now

considered the References Committee's report into Procurement procedures for Defence capital projects. In response, the Government has:

- agreed in full to 13 recommendations relating to realigning responsibilities in Defence, improving contestability of advice, skilling Defence, capability development processes, test and evaluation and Defence industry;
- agreed in principle to four recommendations, and
- agreed in part to seven recommendations.
- The Government has not agreed to four recommendations. These recommendations are either inconsistent with the Kinnaird capability development reforms, have been previously considered and rejected by Government, or would not contribute to improving procurement outcomes.

Furthermore, the Minister for Defence and the Minister for Defence Materiel yesterday announced the next phase of reforms to Defence procurement to specifically improve reporting and accountability mechanisms. Over the past 18 months, the Government has announced a series of reforms to strengthen procurement processes in Defence. These have included reforms to project management accountability (announced in May 2011); reforms to strengthen the Projects of Concern process (announced in June 2011); reforms to support ship repair and management practices (the Rizzo Report – announced in July 2011); reforms in the sustainment of Australia's Collins Class submarines (the Coles Review – announced in August

2011), and reforms to the Defence Capability Plan (announced in July 2012). The Ministers have now announced the next phase of reforms to improve Defence's procurement processes, addressing strengthened project accountability and reporting; use of managing contractors; strengthened performance assessments; extension of the Early Indicators and Warning system; establishment of a Negotiation Cell to improve commercial outcomes for Defence, and Review of the structure and functions of Divisions within DMO.

As discussed in May, Defence will reduce the number of Australian Public Servants in Defence by 1000 over this and next financial years. These reductions are being pursued through several means, including natural attrition, restricting APS recruitment to those positions which are business critical, reducing non-ongoing employee arrangements, and by implementing a targeted Voluntary Retrenchment program. We expect that through the combination of these measures, we will make the required reductions.

In relation to the Strategic Reform Program or SRP, we have achieved our savings targets for financial years 2009-10 and 2010-11.

In 2011-12 Defence achieved \$1,240.8 million, which is, 97 [96.6] percent of the cost reduction target. This is a solid performance in challenging fiscal circumstances and is in addition to funds returned to Government through budget initiatives, some of which is directly from SRP-related expense categories. This result was determined after removing the impact of budget management decisions unrelated to the program.

In achieving this result, there have been no adverse impacts to capability or safety as a result of the SRP reported to date.

In 2012-13, Defence will continue with the SRP activities already underway. Defence will not resile from the SRP, or reform more broadly, nor renege on its commitment to Government. The cost reduction targets grow significantly and while reform must, and will proceed, all activities will be subject to review in recognition of the significant changes since the SRP commenced in 2009. The SRP will be updated to better align with the contemporary organisational, policy and budgetary framework within which it must now operate. The Program also needs be integrated with broader reform activities and take advantage of opportunities they generate. The update of the SRP will be considered in the context of the 2013 White Paper to ensure currency and position us better for future success.

It is also important to note that the SRP is only one of several major reform activities operating in Defence, with the reform agenda also including the Black Review, the Rizzo and Coles Reviews, accelerated Shared Services implementation and the cultural reform which we must implement under the Pathway to Change. CDF will address Defence's implementation of Pathway to Change in his Opening Statement shortly.

At the last Estimates in May, the former Secretary provided an update on matters relating to the review of allegations of sexual and other abuse in Defence, which was conducted by the law firm DLA Piper. Phase 1 of the Review consisted of two volumes: Volume 1, which

contained general findings and recommendations, and Volume 2, which contained individual allegations. On 10 July this year, the Minister publicly released a redacted version of the Volume 1 Report. Volume 2, which contains 1095 allegations from 775 people, remains with the Minister on the advice of the Department, and has not been provided to anyone in Defence. We understand that Volume 2 contains some extremely serious allegations of criminal acts, and these will need to be tested and examined as part of the second phase of the Review. Government is considering how to approach this second phase, and the Minister will advise Defence of the Government's approach to this once a decision has been made. Defence will support whatever process the Government decides upon to address the allegations raised in the Review.

On the White Paper, we have been working now for some months on the various assessments and studies which will underpin the document.

The White Paper provides us with an opportunity to address international developments since 2009 which affect our security planning and posture, including the United States re-balance to our region, our operational drawdown in Afghanistan, East Timor and the Solomon Islands, and the impact of the Global Economic Crisis.

It will also address a number of future considerations for Defence, including force posture, force structure, reform and of course resourcing.

This work is continuing and is being informed by close collaboration with other Government agencies, including PM&C, Finance, DFAT, the Treasury, and ONA.

All parts of Defence have been involved in the process. We are also, of course, working closely with the Ministerial Advisory Group, which consists of Dr Allan Hawke, Paul Rizzo and Ric Smith.

Whilst we can speak today about the work that the Department is undertaking on the White Paper, I would caveat any discussion on this topic by noting that the final content of the White Paper will be a decision for the Minister and Government.

I would also like to provide a brief update on Defence's leasing of property at Moorebank, NSW, which accommodates the Defence National Storage and Distribution Centre, or the DNSDC. The lease on the Moorebank property was due to expire on 25 March 2013, but included two five-year options to renew that can be exercised at the discretion of Defence. The Sydney Intermodal Terminal Alliance (SIMTA) represents the property owner, and seeks to redevelop the site as an intermodal freight hub for import/export. SIMTA is keen for Defence to vacate the site as soon as practicable. Defence is planning to relocate the DNSDC to new facilities which would be built on Defence owned land at West Wattle Grove, which is adjacent to the Moorebank property. This is currently the subject of an inquiry by the Public Works Committee as part of the Defence Logistics Transformation Program. The anticipated completion date for the new facilities, subject to parliamentary approval, is August 2014.

On 24 September 2012, Defence exercised the first available five-year option on the lease at Moorebank that will extend tenure at the site until March 2018. I would like to emphasise that under any circumstance, Defence was always going to seek extension of the lease at Moorebank, noting that we do not yet have anywhere to move to. We have not yet commenced building the facilities at West Wattle Grove, and the DNSDC Moorebank is our main hub to provide logistic support to the ADF both domestically, and for operations overseas. Defence is prepared to vacate the Moorebank site when we have certainty about the completion date for the facilities which are proposed at West Wattle Grove and we will have further discussions with the Sydney Intermodal Terminal Alliance on an early termination of the lease as the Defence Logistics Transformation Program is refined.

Before I conclude, I would like to record a point of clarification regarding a response to Question on Notice Number 1154 in the House of Representatives on the budget of the Army History Unit for financial year 2011-12. The answer that was tabled was \$2.7 million. Whilst this reflects the original budget allocation to the Unit, I am advised that during the course of financial year 2011-12, additional budget of \$675,000 was provided to the Unit, resulting in a final budget allocation of \$3.375 million for 2011-12.

Finally, I would like to note that our Chief Information Officer, Mr Greg Farr, will shortly be leaving Defence after five years service. I would like to place on the record my appreciation for Mr Farr's contribution to the Department of Defence, and wish him the very best

for the future. I anticipate that the new Chief Information Officer, Dr Peter Lawrence, will take up his duties later this year.

To conclude, Chair, CDF and I have used your recent letter and guidance from the Secretariat on topics to nominate appropriate officers from the Department to be here today. We have the right people on hand to respond to the Committee's questions. As always, if we are unable for some reason to provide you with answers to a particular question, we will endeavour to get the information as soon as possible, and read it into the record at the first available opportunity. That concludes my opening statement. Thank you.